# Report on the Selection of Eligible Countries for Fiscal Year 2015

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

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## Summary

This report is provided in accordance with section 608(d)(1) of the Millennium Challenge Act of 2003, as amended, Pub. L. 108-199, Division D, (the "Act") (22 U.S.C. 7707(d)(1)).

The Act authorizes the provision of Millennium Challenge Account ("MCA") assistance under section 605 of the Act (22 U.S.C. 7704) to countries that enter into compacts with the United States to support policies and programs that advance the progress of such countries in achieving lasting economic growth and poverty reduction, and are in furtherance of the Act. The Act requires the Millennium Challenge Corporation ("MCC") to determine the countries that will be eligible to receive MCA assistance for the fiscal year, based on their demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, as well as on the opportunity to reduce poverty and generate economic growth in the country. The Act also requires the submission of reports to appropriate congressional committees and the publication of notices in the *Federal Register* that identify, among other things:

1. The countries that are "candidate countries" for MCA assistance for fiscal year ("FY") 2015 based on their per-capita income levels and their eligibility to receive assistance under U.S. law, and countries that would be candidate countries but for specified legal prohibitions on assistance (section 608(a) of the Act (22 U.S.C. 7707(a)));
2. The criteria and methodology that the Board of Directors of MCC (the "Board") will use to measure and evaluate the policy performance of the "candidate countries" consistent with the requirements of section 607 of the Act in order to select "MCA eligible countries" from among the "candidate countries" (section 608(b) of the Act (22 U.S.C. 7707(b))); and
3. The list of countries determined by the Board to be "MCA eligible countries" for FY 2015, with justification for eligibility determination and selection for compact negotiation, including with which of the MCA eligible countries the Board will seek to enter into MCA compacts (section 608(d) of the Act (22 U.S.C. 7707(d))).

## Eligible Countries

The Board met on December 10, 2014, to select countries that will be eligible for MCA compact assistance under section 607 of the Act (22 U.S.C. 7706) for FY 2015. The Board selected the following countries as eligible for such assistance for FY 2015: Mongolia, Nepal, and the Philippines. The Board also reselected the following countries as eligible for FY 2015 MCA compact assistance – Benin, Lesotho, Liberia, Morocco, Niger, and Tanzania. Sierra Leone, which was not reselected for compact assistance, was selected as eligible for threshold assistance. Cote d'Ivoire was also selected as eligible for threshold assistance, and Guatemala was reselected for eligibility for threshold program funds from FY 2015. The Board also confirmed its support for MCC's efforts to explore new partnerships in South Asia that could contribute to regional economic benefits. This is because, under the right circumstances, such a regional approach may present opportunities to take advantage of higher rates of return on investment and/or larger-scale reductions in poverty.

## Criteria

In accordance with the Act and with the "Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2015" formally submitted to Congress on September 18, 2014, selection was based primarily on a country's overall performance in three broad policy categories: *Ruling Justly*, *Encouraging Economic Freedom*, and *Investing in People*. The Board relied, to the maximum extent possible, upon transparent and independent indicators to assess countries' policy performance and demonstrated commitment in these three broad policy areas. The Board compared countries' performance on the indicators relative to their income-level peers, evaluating them in comparison to either the group of low income scorecard countries ("LIC") or the group of lower middle income scorecard countries ("LMIC").

The criteria and methodology used to assess countries on the annual scorecards are outlined in the "Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2015." Scorecards reflecting each country's performance on the indicators are available on MCC's website at www.mcc.gov/scorecards.

The Board also considered whether any adjustments should be made for data gaps, data lags, or recent events since the indicators were published, as well as strengths or weaknesses in particular indicators. Where appropriate, the Board took into account additional quantitative and qualitative information, such as evidence of a country's commitment to fighting corruption, investments in human development outcomes, or poverty rates. For example, for additional information in the area of corruption, the Board considered how a country is evaluated by supplemental sources like Transparency International's Corruption Perceptions Index, the Global Integrity Report, Open Government Partnership status, and the Extractive Industry Transparency Initiative, among others, as well as on the defined indicator. The Board may also take into account the margin of error around an indicator, when applicable. In keeping with legislative directives, the Board also considered the opportunity to reduce poverty and promote economic growth in a country, in light of the overall information available, as well as the availability of appropriated funds.

This was the sixth year the Board considered the eligibility of countries for subsequent compacts, as permitted under section 609(k) of the Act (22 U.S.C. 7708(k)). The Board also considered the eligibility of countries for initial compacts. The Board sees the selection decision as an annual opportunity to determine where MCC funds can be most effectively invested to support poverty reduction through economic growth in relatively well-governed, poor countries. The Board carefully considers the appropriate nature of each country partnership — on a case by case basis — based on factors related to economic growth and poverty reduction, the sustainability of MCC's investments, and the country's ability to attract and leverage public and private resources in support of development.

MCC's engagement with partner countries is not open-ended, and the Board is very deliberate when determining eligibility for follow-on partnerships. In determining subsequent compact eligibility, the

Board considered – in addition to the criteria outlined above – the country's performance implementing its first compact, including the nature of the country's partnership with MCC, the degree to which the country has demonstrated a commitment and capacity to achieve program results, and the degree to which the country has implemented the compact in accordance with MCC's core policies and standards. To the greatest extent possible, this was assessed using pre-existing monitoring and evaluation targets and regular quarterly reporting. This information was supplemented with direct surveys and consultation with MCC staff responsible for compact implementation, monitoring, and evaluation. MCC published a Guide to the Supplemental Information Sheet and a Guide to the Compact Survey Summary in order to increase transparency about the type of supplemental information the Board uses to assess a country's policy performance and compact implementation performance. The Board also considered a country's commitment to further sector reform, as well as evidence of improved scorecard policy performance.

As with previous years, a number of countries that performed well on the quantitative elements of the selection criteria (i.e., on the policy indicators) were not chosen as eligible countries for FY 2015. FY 2015 was a particularly competitive year: seven countries were already working to develop compacts, multiple countries passed the scorecard (some for the first time), and funding was limited due to budget constraints. As a result, only three countries that passed the scorecard were newly selected for MCC compact eligibility, and two for the threshold program (one of which was Sierra Leone, moving from compact to threshold program eligibility).

## Countries newly selected for compact eligibility

Using the criteria described above, Mongolia, Nepal, and the Philippines are the only candidate countries under section 606(a) of the Act (22 U.S.C. 7705(a)) that were newly selected as eligible for MCA assistance for a compact under section 607 of the Act (22 U.S.C. 7706).

**Mongolia:** After graduating to LMIC status in FY 2013, Mongolia has passed MCC's scorecard criteria for two consecutive years and has shown improvement on the Control of Corruption indicator. It also remains a strong democracy in its region. Rapid growth in the mining sector has fostered recent economic growth; however, 27 percent of the population live below the national poverty line, on par with countries such as Honduras or Nicaragua. The country successfully implemented its first compact, which focused on strengthening property rights, reducing non-communicable diseases, bolstering vocational education, reducing air pollution, and constructing an all-weather road to link markets.

**Nepal**: Nepal has consistently passed the scorecard criteria for four consecutive years. Over the past year, Nepal held successful elections and made progress towards completing a draft constitution, thus demonstrating continued progress toward institutionalizing democratic governance. Nepal has also shown stronger policy performance as the political situation has stabilized, including improved performance on the Political Rights indicator. Selection for a compact offers Nepal a significant opportunity for poverty reduction in a critically important region. A compact investment will build on the economic analysis and development work completed during eligibility for the Threshold Program.

**Philippines**: The Philippines once again met MCC's scorecard criteria in FY 2015, despite graduating to

LMIC status in FY 2012, where the standards are higher and therefore more difficult to meet. The Philippines' improvement has been most notable on the Control of Corruption indicator, on which it improved from the 24th to 61st percentile in just three years. The country is on track to successfully complete its current compact, which focuses on reducing transportation costs through road rehabilitation, as well as bringing efficiencies to tax collection and investing in small-scale, community-driven development projects.

## Countries reselected to continue compact development

Five of the countries selected as eligible for MCA compact assistance for FY 2015 were previously selected as eligible in FY 2014. These countries include Lesotho, Liberia, Morocco, Niger, and Tanzania. The Board reselected these countries based on their continued or improved policy performance since their prior selection.

In FY15, unlike in FY14, Benin also meets the scorecard criteria, including passing the Control of Corruption hurdle. The Board reselected Benin as compact eligible, as well.

## Countries selected as eligible to receive threshold assistance

The Board selected Cote d'Ivoire as eligible to receive threshold assistance. After years of working with MCC and MCC indicator institutions in order to strengthen their scorecard performance, Cote D'Ivoire went from passing 5 to 10 indicators over the last two years, due to updating data and pursuing policy reforms linked to the scorecard. In FY 2015, Cote D'Ivoire meets the minimum scorecard criteria for the first time, passing 10 indicators, including both hard hurdles. Selection for eligibility for threshold assistance will allow Cote d'Ivoire an opportunity to further strengthen its scorecard performance, and allow MCC the opportunity to work with the government on the country's ongoing efforts in policy reform.

The Board also selected Sierra Leone as eligible to receive threshold assistance. Sierra Leone has been committed to reform and is a strong partner of MCC – taking numerous steps to improve transparency and fight corruption over 2014, even in the face of the Ebola crisis. Sierra Leone also continued to improve its overall scorecard performance by meeting 12 of 20 indicators this year versus 11 of 20 last year. However, Sierra Leone did not meet MCC's scorecard criteria for the second year, again narrowly missing a passing score on the Control of Corruption indicator. By selecting Sierra Leone as eligible for threshold assistance, MCC aims to support the government in its efforts to continue its positive overall policy trajectory, while also allowing MCC to bolster Sierra Leone's efforts by supporting continued institutional and policy reforms as the country emerges from its Ebola crisis.

## Countries reselected to continue developing threshold programs

This year the Board reselected Guatemala as eligible to continue developing a threshold program. Guatemala continues to pass more than half of the scorecard overall by meeting 11 of 20 indicators. It also continues to meet the Democratic Rights hurdle. Guatemala improved on the Control of Corruption indicator and currently performs on the median in the 50th percentile.

## Ongoing review of partner countries' policy performance

Countries already implementing compacts do not need to be reselected each year in order to continue implementation. Once MCC makes a commitment to a country through a compact, MCC does not consider the country for reselection on an annual basis during the term of its compact. The Board emphasized the need for all partner countries to maintain or improve their policy performance. If it is determined that a country has demonstrated a significant policy reversal, MCC can hold it accountable by applying MCC's Suspension and Termination Policy.

## Regional partnerships

The Board also confirmed its support for MCC's efforts to explore new partnerships in South Asia that could contribute to regional economic benefits. This is because, under the right circumstances, such a regional approach may present opportunities to take advantage of higher rates of return on investment and/or larger-scale reductions in poverty.